ECONOMIC NOTES

25th Government Stock Tender

Government Stock Tender No. 25 was held on 12 December 1985. A total of $300 million of stock was offered for sale, comprising $100 million maturing in September 1989, $100 million in October 1991, and $100 million in August 1993. Valid bids received totalled $1,090 million, up on the $869 million received in the previous tender which was also for $300 million. All three maturities were well covered, with bids for the 1989 and 1993 maturities being three times greater than amount on offer, while bids for the 1991 maturity were more than four times the amount on offer.

The weighted average yields on successful bids were 17.4 per cent for the 1989 stock, 16.7 per cent for the 1991 stock, and 16.8 per cent for the 1993 stock. Average yields were lower than those in the previous tender by 1.1 per cent for the 1991 stock and 0.4 per cent for the 1993 stock, which was in line with developments in secondary market rates. A comparable 1989 stock was not offered in the previous tender, but the average yield on that maturity was also down by around 1.1 per cent compared with secondary market rates at that time.

Late in the settlement period for Tender 25, the Reserve Bank was advised by the successful tenderer for almost $100 million of 1991 stock that it would be unable to settle for the stock. This was the first time a successful tenderer had been unable to settle for stock since the stock tendering system began in 1983. Over $7 billion of stock has been sold since the first tender. The Minister of Finance subsequently announced on 22 January 1986 that the $100 million of October 1991 stock would be offered again in a special tender to be held on 30 January 1986.

Treasury bill Tenders and Open Market Operations

Early payment of Public Service salaries and Social Welfare benefits contributed to the high net public sector injections evident in the weeks prior to Christmas. Despite these strong injections $241 million of Government securities were discounted during the month. Most of this discounting ($190 million) was over 12–13 December and was due partly to large sales of retail stock on 12 December ($115 million). On 31 December, strong end-of-month withdrawals from the system resulted in a further $30 million of discounting by settling institutions. Cash balances over the month averaged $76 million.

Stock settlements in December totalled $296 million, $291 million was received for stock sold in Tender 24 and $5 million for stock sold in Tender 25. In line with past months, a large proportion of the Tender 24 settlements were received on 13 December, the final day for Tender 24 settlements.

Primary liquidity began the month at a level of $2,360 million but had fallen to $2,044 million by 13 December as a result of the strong withdrawals from the system on 12 and 13 December. It rose again in response to high net government expenditure to reach $2,629 million on 24 December. End-of-month tax payments and end-of-quarter interest payments to government reduced the level of primary liquidity to $2,229 million on 31 December.

A total of $402 million of Treasury bills were sold by tender during December. Of these, $40 million were December maturities, $131 million were January maturities and $231 million were February maturities. The choice of maturities reflected the Bank's desire to match Treasury bill maturities with forecast liquidity withdrawals from the system.

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Treasury Bill Tenders and Open Market Operations

Treasury Bill Tenders:

Tender	Amount Offered $m	Term	Amount Sold $m	Weighted Average % Rate
45	40	21 days	40	19.579
	40	77 days	40	19.647
46	50	28 days	50	18.140
	100	42 days	50	18.384
	100	77 days	150	17.622
47	50	35 days	31	20.024
	50	70 days	41	19.021

Open Market Operations:

	Amount Offered $m	Term	Amount Sold $m	Amount Purchased $m
5 December		26 days	25	—
Treasury bills	75	53 days	2	—
		97 days	48	—
6 December		52 days	10	—
Treasury bills	40	80 days	30	—
9 December		22 days	15	—
Treasury bills	70	50 days	25	—
		78 days	30	—
11 December		77 days	—	—
Treasury bills	50	92 days	50	—
Government stock		15/5/86	—	12
13 December				
Treasury bills	50	89 days	—	3
16 December		14 days	50	
Treasury bills	50	42 days	—	
17 December		14 days	5	—
Treasury bills	100	41 days	—	
18 December		13 days	57	
Treasury bills	75	40 days	18	
19 December		26 days	25	—
Treasury bills	60	39 days	35	
20 December		19 days	25	—
Treasury bills	30	35 days	5	—
23 December		32 days	35	—
Treasury bills	35	36 days	—	

The Reserve Bank conducted open market operations on eleven occasions during December and sold a total of $490 million of Treasury bills. The Bank also purchased $15 million of government securities on 13 December in response to the forecast withdrawals from the system. Over 5-9 December $185 million of Treasury bills were sold in response to strong forecast cash injections. Again, on 11 December, a further $50 million of bills were sold. On the six days 16-23 December continued strong public sector injections allowed $255 million of bills to be sold to the market leaving the settling institutions with average cash balances over that period of $138 million.

Government Borrowing Programme for 1985/86

The Associate Minister of Finance, the Hon. R.W. Prebble, on 16 January 1986, announced that there would be an increase in the Government's borrowing programme for 1985/86.

The increase in the borrowing programme arose out of a decision by the Government to allow the Meat Board to finance its 1984/85 season losses by borrowing from the Reserve Bank. As this borrowing represents a liquidity injection to the financial system it would need to be financed by the sale of government stock so that the Government's monetary policy stance remained unchanged. The Government remained committed to fully funding net public sector injections with sales of government stock.

Mr Prebble said that the additional government stock would be sold by increasing the size of the government stock tender scheduled for 23 January 1986 by $100 million to $400 million, and by holding a further tender on 13 February 1986. Mr Prebble said that the exact size of the February tender would be decided closer to the tender date.

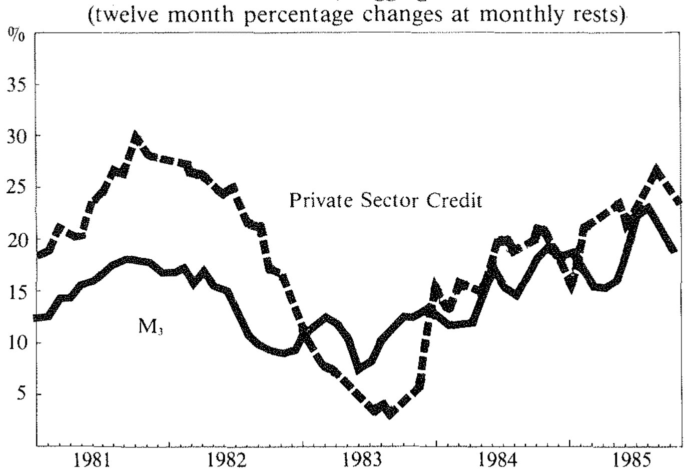
ECONOMIC UPDATE

Monetary Indicators

The *Money Supply* (M3) is estimated to have grown 1.4 per cent in October after rising 1.2 per cent in September. Over the year to October M3 rose 19.1 per cent, down slightly from the 19.3 per cent growth over the twelve months to September (D1, D2, D3).

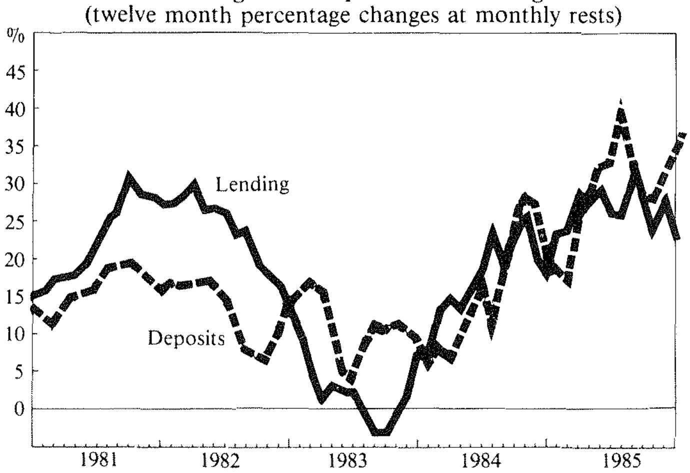
Private Sector Credit (PSC) was unchanged over October, having risen 1 per cent in September. For the year to October, PSC is estimated to have risen 22.2 per cent which compares with a 24.1 per cent increase for the year to September (D2, D3, D4).

Monetary Aggregates
(twelve month percentage changes at monthly rests)



Trading bank lending rose 23.9 per cent in the year to December compared with 27.4 per cent in the year to November. *Trading bank deposits* over the same period were up 34.5 per cent, having risen 31.6 per cent in the November year (B2, B3, B4, B7, B8, B11). The trading banks' *lending to deposits ratio* rose slightly to 71.2 for December.

Trading Bank Deposits and Lending
(twelve month percentage changes at monthly rests)



Total credit limits at trading banks for November were 22 per cent higher than a year earlier (B12).

The level of *Primary Liquidity*, expressed as a daily average (non-seasonally adjusted), rose over December to $2,397 million compared with $1,454 million in October and $2,098 million in November.

In the year to November:

— *Savings bank lending* rose 20.6 per cent and deposits 8.2 per cent.

— *Trustee savings bank lending* and *deposits* rose 9.1 per cent and 11 per cent respectively (C2).

— *Post Office Savings Bank lending* rose 97.6 per cent while deposits were up 11.1 per cent (C1).

— *Private savings bank lending* fell 16.5 per cent and *deposits* 15.8 per cent (C4).

— *Large finance companies' lending* and *deposits* increased by 26.7 per cent and 23.6 per cent respectively (F4).

— *Building societies' lending* rose 8.9 per cent and deposits 7.9 per cent (F5).

Interest rates on trading bank deposits eased over November, with noticeable falls in short-term rates and smaller reductions in longer term rates (I2).

External Sector (figures not seasonally adjusted)

A $72 million net inflow of *private capital* was recorded over October after a net inflow of $93 million in September (G4).

The *OET current account deficit* for the year ended October was $2,390 million compared with $2,591 million for the year ended September and $2,065 million for the October 1984 year (G4).

Merchandise trade import payments exceeded export receipts by $144.3 million in November. A year earlier imports for the month exceeded exports by $232.5 million (G4).

A *balance of payments current account deficit* of $888 million was recorded over the September quarter, bringing the deficit for the year to September to $2,442 million. This compares with a $2,569 million deficit for the year to September 1984 (J4).

New Zealand's *official overseas reserves* fell by $174.9 million in October to reach $2,345.8 million. The level of reserves at October 1984 was $2,211.1 million (G1).

The *Export Price Index* fell 4.9 per cent over the September quarter but was 3.2 per cent above the level a year ago. The *Import Price Index* fell 3.5 per cent over the same quarter but was 5.7 per cent higher than for September 1984. The *Export Volume Index* fell 13.2 per cent in the September quarter but rose 8.6 per cent over the September year. The *Import Volume Index* rose 1.9 per cent and 7.6 per cent, over the September quarter and year, respectively.

Consumption

Retail turnover rose 3.5 per cent in November after falling 2.6 per cent the previous month. Turnover excluding the automotive sector was up 4.2 per cent (J1).

New car registrations fell 1.5 per cent in November, after falling 5.7 per cent in October (J1).

Investment

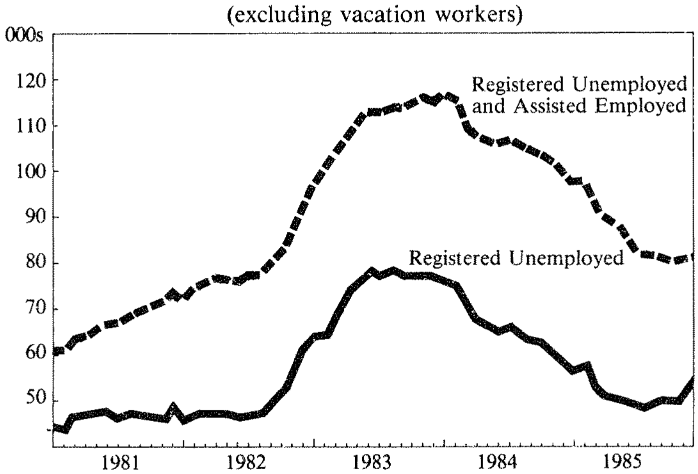
The *number of new dwelling permits* issued in November was 1 per cent higher than in October (J2).

The *value of building work put in place* over the September quarter rose noticeably on the June quarter. The value of dwellings (including additions and alterations) was up 6 per cent while the value of other buildings was 6.4 per cent higher.

Labour Market

The number of *registered unemployed* rose 5.4 per cent in November to reach 53,642, the fifth successive monthly increase. The total of *registered unemployed and assisted employed* rose by 0.8 per cent over the same month to 81,079 (J4).

Labour Market
(excluding vacation workers)

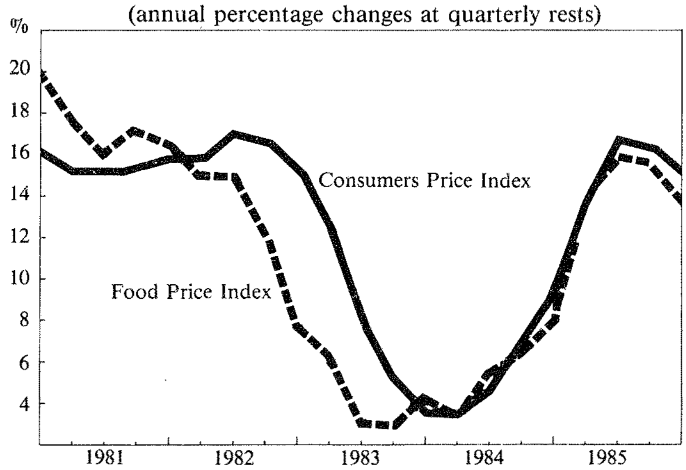


Prices

The *Consumers Price Index* (CPI) rose 2.3 per cent over the December quarter and 15.3 per cent over the December year. The respective increases for the September quarter and year were 2.8 per cent and 16.3 per cent.

Contributing to the latest CPI figure was the 0.6 per cent fall in the *Food Price Index* for the December month, the first monthly decrease in almost two years (J3).

Prices
(annual percentage changes at quarterly rests)



The *Producers Price Index* rose 1.4 per cent for inputs and 1.7 per cent for outputs in the September quarter, giving annual rates of increase of 15.8 per cent and 14.7 per cent respectively. The respective increases for the June quarter were 4.8 per cent and 4.6 per cent, with the June year increases 19.8 per cent and 17.3 per cent (J3).

Government Sector (figures not seasonally adjusted)

Government net expenditure for the eight months ended November was 18.7 per cent higher than for the corresponding period in 1984 while *government revenue* was up 16.2 per cent. The *government deficit before borrowing* for the eight months was $2,991.2 million, 26.3 per cent higher than for the eight months to November 1984 (table E2).

Note

All quarterly and monthly data are seasonally adjusted unless otherwise stated. The figures in brackets refer to the *Bulletin* tables in which the relevant statistics appear. However, the statistics in the *Bulletin* tables have not been seasonally adjusted and therefore they may differ from the statistics given here.

Incomes (figures not seasonally adjusted)

The average real disposable incomes of wage and salary earners as measured by the *Real Disposable Income Index* fell 2.3 per cent over the September quarter, implying a 6.8 per cent decrease in annual terms. Although gross incomes rose 11.8 per cent over the year this was more than offset by inflation and increased average tax rates (J3).

Incomes
(annual percentage changes at quarterly rests)